

Lafayette State Bank
June 3, 1996

PUBLIC DISCLOSURE

June 3, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

LAFAYETTE STATE BANK
283054
10-08-0987

811 SOUTH PUBLIC ROAD
LAFAYETTE, COLORADO 80026

Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 64198

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Lafayette State Bank prepared by the Federal Reserve Bank of Kansas City, Denver Branch, the institution's supervisory agency, as of June 3, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING

The bank's performance with the Community Reinvestment Act is outstanding. The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. Additionally, a substantial majority of loans were found to be in the bank's assessment area and the distribution of loans reflects excellent dispersion among geographies and individuals of different income levels and businesses of different sizes.

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The following table indicates the performance level of Lafayette State Bank with respect to each of the five core performance criteria and the two optional criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Lafayette State Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	The bank has not received any complaints about its CRA performance.		
Investments	Unrated. The bank does not currently have investments that are "qualified investments."		
Services	Unrated. The bank does not currently offer services that are "qualified services."		

DESCRIPTION OF INSTITUTION

The Lafayette State Bank has three full-service offices located in Lafayette, Louisville, and Boulder, Colorado. The main bank is located at 811 South Public Road in Lafayette. The branches are located at 1020 Century Drive in Louisville and 2775 Pearl Street in Boulder. Both branch offices have automated teller machines.

The bank reported total assets of \$57,671,000 in its March 31, 1996 Report of Condition and Income ("Call Report"). The following table reflects the distribution of the bank's loan portfolio as of that date.

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DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO		
<i>Type of Loan</i>	<i>Amount (000s)</i>	<i>Percentage of Total Loans</i>
Commercial Loans	\$14,207	35.0%
Loans Secured by Real Estate:		
Construction and land development	7,790	19.0%
Revolving, open-end loans secured by 1- to 4- family residential properties	0	0.0%
All other loans secured by 1- to 4- family residential properties	7,374	18.0%
Secured by multifamily (5 or more) residential properties	196	0.5%
Secured by nonresidential properties	8,005	20.0%
Consumer instalment loans	2,530	6.0%
Consumer open-end loans	400	1.0%
Other	582	0.5%
Total	\$41,084	100.0%

The bank's performance under the CRA was last evaluated at the July 10, 1995 examination, at which time it was considered outstanding also.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area, which is the geographic area the bank has designated as its service area, includes the entire Boulder Metropolitan Statistical Area ("MSA"), and small portions of the Denver and Greeley MSAs. The bank's assessment area encompasses all of Boulder County and sections of Jefferson, Adams, and Weld Counties. This area includes the cities of Boulder, Lafayette, Louisville, Superior, Longmont, Erie, and sections of Broomfield. The bank's assessment area does not arbitrarily exclude any low- and moderate-income areas, taking into account the bank's size, structure, and financial condition.

The population in the bank's assessment area is currently estimated to be 264,806. The median family income for the Boulder MSA is \$54,200. The median family income for the bank's assessment area is \$45,950.

There are a total of 65 census tracts in the assessment area. Each tract is identified according to the level of income as compared to the median family income of the bank's assessment area. Low-income is defined as less than 50 percent; moderate-income as at least 50 percent and less than 80 percent; middle-income as at least 80 percent and less than 120 percent; and upper-income as 120 percent or

more of the median family income of the bank's assessment area. The following table shows the distribution of the 65 census tracts among the four income categories.

INCOME CLASSIFICATION OF CENSUS TRACTS IN THE ASSESSMENT AREA				
	Low	Moderate	Middle	Upper
Number of Tracts	3	9	34	19
Percentage of Total Tracts	5%	14%	52%	29%

The local economy is strong. The area benefits from high-tech, bio-medical, and pharmaceutical companies which offer high paying jobs. The area also nurtures a large number of business start-ups. This economic activity has fueled growth in the bank's assessment area. Due to the stringent growth restrictions the City of Boulder imposes on development and business expansion in Boulder, the outlying areas of the bank's assessment area has benefited from the growth of businesses and residences.

Community contacts indicated that affordable housing is the biggest need in the bank's assessment area. The housing problem is intensified by a huge increase in housing prices in the area. The lack of affordable housing in the bank's assessment area is impacting housing and development in the neighboring towns. Although there are a large number of employers in Boulder, the lack of affordable housing has resulted in people moving to the bedroom communities surrounding Boulder. As a result, economic activity has been greater in the cities of Lafayette, Louisville, Erie, and Broomfield. These cities have experienced substantial residential and commercial real estate development activity in the past few years.

Major employers in the bank's assessment area include manufacturers involved in producing aerospace products, computer peripherals and software, and pharmaceuticals. Other major employment sectors are retail trade, services, and government. Entities employing over 1000 people include Ball Aerospace, Boulder Community Hospital, Boulder County, Boulder Valley Schools, City of Boulder, Exabyte Corp., IBM Corporation, Neodata Services Inc., Storage Technology Corporation, and the University of Colorado.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Community Reinvestment Act is outstanding. The bank's performance under each of the five small institution assessment criteria is summarized on the following pages.

Loan-to-Deposit Ratio

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The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. Based on Call Report information, the bank's average loan-to-deposit ratio for the last four quarters is 81 percent. This ratio is greater than for other banks of similar size and capacity located in the assessment area.

Lending in Assessment Area

A substantial majority of loans are in the bank's assessment area. This conclusion is based on a sample of loans reviewed during the examination. Three loan types were sampled, including consumer secured, consumer real estate, and small business loans. Overall, 91 percent of the number and 92 percent of the dollar amount of the loans sampled were in the bank's assessment area.

As noted in the following table, the consumer real estate and business loans sampled showed the highest concentrations in the assessment area.

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	<i>Inside the Assessment Area</i>				<i>Outside the Assessment Area</i>			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Consumer Secured Loans	37	84%	560,822	90%	7	16%	59,168	10%
Consumer Real Estate Loans	37	93%	3,243,896	87%	3	7%	473,855	13%
Business Loans	56	95%	3,605,154	98%	3	5%	77,714	2%

Further, the penetration of loans in the assessment area is more than reasonable given the competition in the area. There are approximately 48 financial institutions or branches serving the bank's assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Given the demographics of the assessment area, the distribution of borrowers reflects an excellent penetration among individuals of different income levels and businesses of different sizes.

An analysis of the loan sample revealed that the bank is actively lending to borrowers of different income levels, including low- and moderate-income individuals. The distribution of consumer secured loans by income level of borrowers is particularly noteworthy as it compares very favorably with the demographics of the population in the assessment area.

As can be noted on the following table, the percentage of the number of consumer secured loans to low- and moderate-income borrowers is 35 percent and 32 percent, respectively. This compares favorably to the demographics of the assessment area at 17 percent low-income, 18 percent moderate-income, 26 percent middle-income, and 38 percent upper-income.

The real estate loan sample does not compare as well to the demographics of the assessment area. However, it should be noted that community contacts indicated that low- and moderate-income individuals in the bank's assessment area are typically not home owners. This may account for the disparity. As evidenced on the following table, 3 percent and 8 percent of consumer real estate loans were to low- and moderate-income individuals, respectively. Comparatively, the assessment area is comprised of 17 percent low-income and 18 percent moderate-income individuals.

Community contacts also stated that there is a lack of affordable housing in the bank's assessment area due to the high cost of housing and stringent growth and development restrictions imposed by the City of Boulder. While this has fueled development in the other cities in the county, it is creating affordable housing problems throughout Boulder County. Community contacts stated that low- and moderate-income individuals and families are less likely to be homeowners due to the high cost of homes in the bank's assessment area and the rising cost of housing in the neighboring cities.

According to information obtained from community contacts, the average price of a single-family home in Boulder County was \$206,506 as of March 1996. The majority of cities in the assessment area boast home prices near or above the \$200,000 mark. Boulder and Longmont currently boast the highest values at \$264,213 and \$156,675, respectively.

DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER								
	Consumer Secured				Consumer Real Estate			
	Number	%	Dollar	%	Number	%	Dollar	%
Low Income	13	35%	\$111,540	20%	1	3%	\$ 20,295	1%
Moderate Income	12	33%	\$ 79,395	14%	3	8%	\$ 228,057	7%
Middle Income	9	24%	\$117,835	21%	12	32%	\$ 620,106	19%
Upper Income	3	8%	\$252,052	45%	21	57%	\$2,375,438	73%

An analysis of the sample of small business loans (loans with original amounts of \$1 million or less) indicated that the bank is making loans to businesses of different sizes. Eighty-six percent of the small business loans sampled were to businesses with gross annual revenues less than \$1 million. Additionally, as shown on the following table, the bank is making loans to businesses of different sizes as well. Loan originations to businesses with gross annual revenues less than \$250,000 is particularly noteworthy at 52 percent.

DISTRIBUTION OF BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Loans	%	Dollar of Loans	%
Less than \$100,000	17	31%	\$ 645,056	18%
Greater than or equal to \$100,000 but less than \$250,000	12	21%	\$1,179,809	33%
Greater than or equal to \$250,000 but less than \$500,000	11	20%	\$ 553,057	15%
Greater than or equal to \$500,000 but less than \$1,000,000	8	14%	\$ 392,235	11%
Greater than or equal to \$1,000,000	8	14%	\$ 834,996	23%

Geographic Distribution of Loans

The bank's overall geographic distribution of loans reflects excellent dispersion throughout the assessment area, given the bank's branching structure and competition. The following table indicates that the consumer and small business loan samples are concentrated in middle- and upper-income tracts. Although this appears to be disproportionate to the number of families in low- and moderate-income tracts, these results are well in line with the demographics of the area. For example, there were no loans noted in low-income tracts. However, these tracts are sparsely populated or unpopulated.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT								
	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Consumer Secured	0	0	6	\$67,538	29	\$255,902	2	\$237,382
<i>Percent of Total</i>	0%	0%	16%	12%	78%	46%	6%	42%
Consumer Real Estate	0	0	9	502,794	15	1,581,218	13	1,159,884
<i>Percent of Total</i>	0%	0%	24%	15%	41%	49%	35%	36%
Small Business	0	0	15	1,124,868	30	1,557,427	11	922,858
<i>Percent of Total</i>	0%	0%	26%	31%	54%	43%	20%	26%
Number of tracts in assessment area <i>Percentage of Tracts</i>	3 5%		9 14%		34 52%		19 29%	
Number of Families by tract <i>Percentage of Families</i>	697 1%		9,443 15%		38,320 58%		17,238 26%	

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT				
Owner occupied households by tract <i>Percentage of households</i>	11 0%	8,307 13%	38,151 59%	18,184 28%

The bank's penetration in moderate-income tracts is strong. The percentage of the number of consumer secured, consumer real estate, and business loans in these tracts is significantly higher than the demographics.

Response to Complaints

The bank has received no complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

Compliance with Antidiscrimination Laws and Regulations

There were no substantive violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination. Minor violations of Regulation B (Equal Credit Opportunity Act) were noted during the examination and are easily correctable. These findings do not lower the bank's overall CRA rating.

In summary, the bank's overall performance materially exceeds the standards for satisfactory in the performance criteria to the extent that an outstanding rating is warranted.